

## ECONOMIC AND SOCIAL CHALLENGES OF THE EIGHTIES

By Jay Van Andel

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I'm glad to see that you are in college, adding to your skills to face the challenges of the years ahead. You will need all the skills and knowledge you can gather, because the challenges that are facing us as a nation and world in the decade of the '80s are some of the toughest that the human race has seen in its long sojourn on this earth.

One tremendous challenge to all of us is that of maintaining a free society. For all the recorded history of human beings on this earth, various degrees of tyranny have been the natural state of affairs for most people. Since most of us have never lived under an authoritarian system of government, we may not realize that even today over 80% of the world lives under such a system.

Humanity, of course, can survive under various states of tyranny. It has for thousands of years. In fact,



real freedom for large numbers of people came into existence only about 200 years ago, in 1776, in our country. And it's possible, although we hope not probable, that this brief interlude of freedom could become just an historical accident in the long history of mankind.

The trend toward centralization of government which has occurred since the Great Depression has deprived us of much of the individual freedom Americans once took for granted. Our new President understands that, but he will need the support of each of us if he is to achieve his stated goal of reducing the size of government and restoring our lost freedoms.

Individual freedom and economic freedom go hand in hand, you know. They're like Siamese twins. If you destroy economic freedom or free enterprise, you destroy individual freedom as well. Free enterprise creates

im•pri•mis (im-pri-mis) adv. In the first place. Middle English, from Latin in primis, among the first (things).

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more wealth and disperses it more widely than any other system. This great outpouring of wealth that free enterprise creates makes possible freedom from want, the creation of great works of art, of great hospitals, of great cathedrals, of great centers of learning, of so many aspects of the truly exceptional life.

Winston Churchill said it well when he was ousted from office by the socialists in 1945:

Personal initiative, competitive selection, the profit motive corrected by failure and the infinite processes of good housekeeping and personal ingenuity, these constitute the life of a free society. It's this vital creative impulse that the doctrines and policies of socialist government have destroyed. Nothing that they can plan and order and rush around enforcing will take its place. They have broken the mainspring and until we get a new one, the watch will not go. Set the people free, get out of the way and let them make the best of themselves.

There are many forces at work to destroy freedom, but one of the most insidious starts with a good motive. The so-called compassionate liberal wants to help the poor, the disadvantaged and the disabled—a noble motive. The problem is he wants to do so, not by securing the *voluntary* help of the more fortunate citizens, but instead, with their *involuntary* help by using the force of government to extract money from them to do this good deed. This creates the politics of taking from one and giving to another, called income redistribution.

We have gone a long way down that road in our country today. Income redistribution was made possible largely by amending our Constitution more than a half century ago to authorize the income tax. Only by taxing directly the incomes of individuals is it possible to take substantially from one and give to another. But there's never an end to this. If it's good to take a little from one by force and give to another, then perhaps it's better to take more from one by force and give to another, or to expand the number of recipients. The final end is that instead of simply helping the poor and the disadvantaged and the disabled, a vast army of others with questionable needs gets in line for the handouts also, and ultimately so many are on the receiving end that it becomes politically impossible to control. We then take so much from the productive to pay the non-productive that we create a new class of Americans which lives off other people's taxes while pretending that this institutionalized pork barrel is all for the sake of the poor. The productive slow down, and there is less for all. The pie inevitably gets smaller for everyone.

A free society is competitive, because human beings are not born with equal abilities and do not develop equal motivation. A free society then is a "meritocra-

cy." Those who would destroy that and who would destroy freedom do so in the name of egalitarianism. An egalitarian society reduces all people to the lowest level of achievement, taking income from those who produce it and transferring it to those who've not earned it.

Many well-meaning people get very confused by this activity. Many Christians even believe there can be such a thing as Christian Socialism or Christian Communism. I don't think so. The two terms are mutually exclusive. And so a great deal of violence is done to our free society in the name of helping the poor. Unfortunately, even that aim isn't met.

For instance, even if we accept the official government figure of 25 million poor people in the United States (which is wildly overstated because that definition of poor does not take into consideration the aid they receive from government such as food stamps, welfare checks, rent subsidies, etc.) but, nevertheless, if we take the 25 million people—divide that into just the *increase* in social welfare programs that was noted between the years of 1965 and 1975—we could have given each so-called poor person in the United States a stipend of \$8,000 a year tax free. Which means that a family of four would have received about \$32,000 annually, making relatively rich people of all those 25 million poor.

But instead we wasted vast amounts in government bureaucracy and in handouts to those not in need. So with our redistributive economics, we didn't help the poor very much nor did we help the cause of freedom. None of us, of course, would not want to help those in need. I believe it is our duty to do so, but the essence of charity is that it benefits both the giver and the receiver. And it can only benefit the giver when it is done voluntarily, not under force, not with Robin Hood systems.

Government notoriously is one of the worst ways of accomplishing almost any sort of business in this country. And certainly handing over the business of charity to government has not been a very successful venture for us. Our income redistribution schemes in this country have now brought us to the point where there are more Americans receiving checks from government than are paying into the government to make possible the payment of those checks. And the cure of that problem is not going to be easy.

And this brings us to some of the other critical challenges of the '80s, most of which have to do fundamentally with the preservation of a free society. One big challenge will be to roll back inflation. Nations can live with inflation, they can even live with a very high rate of inflation, but no nation has ever been able to live with high inflation and preserve a free society. So if we want to maintain freedom, we have to abolish inflation. The only way to stabilize the currency is to

stop deficit spending on the part of the federal government. That sounds easy but, unfortunately, it's politically difficult. Because to balance the budget we must either raise taxes a great deal, which is unpalatable, or reduce government spending a great deal, also unpalatable. Nevertheless, our national goal must be to return to zero inflation. We've done it in the past—we can do it again.

Related to the challenge of rolling back inflation to zero is the challenge of rolling back the size of government itself. Government at all levels has become a monster that is consuming over 40% of the national income of this country. Americans have to work from January until June simply to pay for the cost of their government. No one really needs that much government.

I'm delighted that we have elected a President and a majority in the Senate who believe that the size of government should be rolled back. But it's one thing to believe it and another thing to do it. We can roll back inflation by stabilizing the money supply and eliminating the federal deficit. This will mean that a lot of federal expenditures will have to be cut. But to roll back the *total size* of the federal government will necessitate a great many *more* cuts. And that's when the cries will begin.

The businessman who is receiving a government guaranteed loan will have to forego it.

The farmer who is receiving a subsidy will have to forego it.

The mother who is having her child's school lunch paid for by the taxpayers will have to pay for it herself.

The professor who is receiving a grant to study the sex life of a Brazilian frog will have to persuade some private individual to give him that grant.

The artist who is receiving a government grant to produce pictures that don't sell will have to go out in the open market and produce pictures that somebody wants.

The food stamp recipient who doesn't need food stamps but gets them anyway because they are available will have to do without them.

The college student who's getting a government grant to go to college may have to go out and work for that money instead.

The truth is that government redistribution has invaded almost every facet of our society and, therefore, a cutback in the size of government is going to affect almost everybody. And unless we, as a nation, collectively and individually are willing to accept the pain of that cutback, it can never happen.

So the challenge of rolling back the size of government and rolling back inflation is going to take tremen-

dous leadership on the part of the new President. We have now selected a doctor to cure our ills. When we begin taking the medicine, it will probably create some temporary side effects and some pain. Unless we can keep our eyes ahead to the happier days of the cure, we may stop taking the medicine and have a relapse from which the nation may never recover.

Equally important to restoring economic stability in America is improvement of our rate of productivity growth. Increasing productivity is the only way we can elevate our standard of living. For most of the history of our country productivity has increased, resulting in an increasing standard of living, expressed in higher pay, better working conditions and more leisure time. At present, however, our productivity is not increasing. Our machines and factories are old and wearing out. If we no longer have increases in productivity, we will have less wealth for culture, for education, for religion and medicine. As our productivity goes down, our living standard also will have to move down and our prices will move up.

Our great free society has been built on the concept of upward mobility, of rising expectations for all. If we have zero growth, there can be no more rising expectations. There can be little or no upward mobility. This creates political instability and creates great demand for redistribution of what's left. Instead of concentrating on creating a bigger pie for all to share, we will fight over who gets a slice of a smaller and smaller pie.

Ludwig von Mises, the great Austrian economist, said it so well when, speaking to the American Society of Social and Political Science on March 30, 1945, he said:

There are no means by which the general standard of living can be raised other than by accelerating the increase of capital compared with population.... The only means to increase a nation's welfare is to increase and improve the output of products. The only means to raise wage rates permanently for all those eager to earn wages is to raise the productivity of labor by increasing the per head quota of capital invested and improving the methods of production....

That thesis is as valid today as it was 25, 100 or 200 years ago. It is the essence of free enterprise. Policies of the Sixties and Seventies ignored the tenets upon which our economic system is based. Unless the trend of those years is reversed during the 1980s, those assuming a place in society in the years ahead will be the first generation of Americans forced to *lower* their standard of living. The great challenge we face today is to prevent such an eventuality.

From 1947 to 1966, output per person-hour in the private sector increased on average at a rate of 3.44 percent. From 1966 to 1973 the rate dropped to 2.15 percent, and from 1973 to 1978 the annual increase was

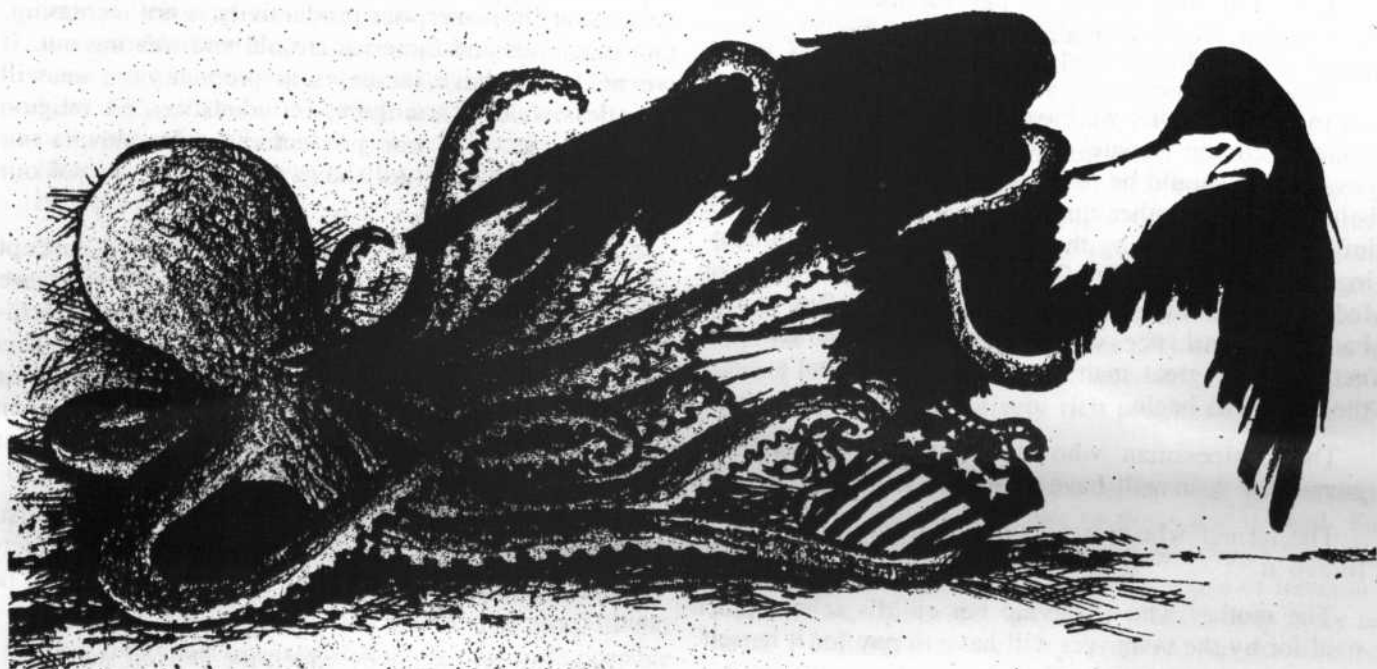


down to 1.15 percent, and last year, productivity actually declined eight tenths of a percent.

What is the reason that productivity growth in the United States has faltered since 1965? There are many factors: the increase in the percentage of traditionally less productive service industries, changes in the demographics of the work force (more women and young people who are less experienced and therefore less productive at first), the higher cost of energy in the Seventies. All of these contributed. But the principal factors in the decline of U.S. productivity growth have been inflation, unwise capital taxation, depreciation

and how to differentiate that which is necessary from that which is unnecessary. This is complicated by the emotional benefits on which much government regulation is based. Who can, for instance, be against safety in the workplace? Who can be against pure food and pure medicine, or a clean environment, or honesty in advertising? But the problems always are—how much do we improve matters by regulation, which kind of regulation does the best job at lowest cost, have the needs and conditions changed, and is the cure worse than the disease?

Another challenge connected with maintaining in-



schedules that don't take inflation into account, and government overregulation that has put a heavy non-productive load on all enterprise and has created a decline in innovation and entrepreneurship.

Let's take a more detailed look at some of these causes of low productivity. First, overregulation by all levels of government, especially the federal government. I could regale you with scores of horror stories of the absolute stupidity of overregulation. We do know that compliance with government regulation is costing American consumers—each year—at least one hundred billion dollars that is all added on to the price of the goods and services they buy. Some of that regulation is of value, some of it is necessary. But all of it is not. A good case can be made that at least 50% if not 75% of that regulation should be abolished. It depresses productivity, it puts a load of non-productive costs on our industry which makes us uncompetitive in the world-wide market.

The challenge facing our government and essentially, therefore, all of us is how to eliminate the unnecessary

creases in productivity is that of maintaining entrepreneurship in American business. Entrepreneurs are those people who start new businesses, who market new ideas, who market new inventions, who develop new concepts. They're the refreshers in society, the builders, the innovators. I'm proud to be one of them. Without entrepreneurs starting new businesses eventually all businesses would become old businesses that would wither and die. Entrepreneurs are as vital to the success of the free enterprise society as new seed is to a farmer each spring. There are some 15 million businesses of all sizes in our country today. Most of them never become very large but all of the small ones together comprise a very large segment of our business system.

Entrepreneurs start businesses and build them because they are challenged by competition, because they are motivated by the high potential rewards and because they love personal freedom. They may sometimes be long on intuition and short on science. In 1946 scientific surveys showed that there would be, worldwide, a

market for 10 computers as computers were known in that day. But entrepreneurs went ahead anyway and today computers are being sold by the millions and coming into everyone's household. So entrepreneurs often bypass scientific information and on the basis of their own dreams start new businesses; some succeed and some fail and some start over again. But entrepreneurship is being depressed in our country. The weight of government overregulation falls very heavily on the small business person.

Inflation makes it difficult for the small business to get started, because it's difficult for the savings to be accumulated to provide risk capital. Unwise tax laws force the absorption through merger of new businesses into old, and the vast paperwork burden which is thrown at businesses of all sizes creates non-productive burdens impossible for many businesses to bear.

Entrepreneurs have disappeared from the leadership of many U.S. companies because they have little patience with the non-productive aspects of business. They cannot tolerate the managerial roadblocks which have been placed in the way of corporate growth—roadblocks which include both the mountainous regulatory burdens of the last fifteen years, and the shrinking capital resources available for the conduct of competitive enterprise. And they find it difficult to cope with the internal red tape which often appears in response to regulatory challenges. This is the stuff of lawyers, accountants and consultants. In fact, one economist recently observed that when you see lawyers and accountants taking over the helms of so many businesses, you know there is trouble. They are the "firemen," coming in to save the companies, to do battle with the forces working against free enterprise, exercising their skills to provide at least short-term answers in a chaotic business environment.

I differ with those who see the decline of entrepreneurship as the *cause* of declining U.S. productivity. I see it as another *result* of government intervention in the marketplace which contributes to slackening economic growth. I am not alone in this view. *Newsweek* magazine, in an exhaustive study, "An Economic Dream in Peril" (September 8, 1980), concluded, "Even the most ardent consumer and environmental activists in Washington agree that government should rationalize its chaotic regulatory structure." The *Newsweek* article went on to say, "According to an increasingly powerful consensus, the best that government can do is reduce its scope and try to restore incentives to the private sector." I take exception to this latter statement. The best government can do is *forget* about incentives and fine tuning and meddling in the private sector. The best government can do is to *undo* much of what has already been done, to remove the *disincentives* to a free market environment, to let people be free.

The productivity challenge is related to the challenge

of meeting worldwide competition. At one time we lived in a nation which was almost a world unto its own. At one time we were the most productive and pre-eminent economic power in the world. Today our productivity growth rate has been exceeded by nations such as Japan and Germany and others in the world. And our economic supremacy is being challenged every day.

We have to compete in a world market and if we cannot do so, we will watch our industries being destroyed and more of our people becoming unemployed. This can easily create a cry for the false cure of protective tariffs. But history has shown that every time a nation resorts to protective tariffs to protect the non-competitiveness of its industry, worldwide retaliation takes place and trade wars very often ultimately escalate into shooting wars. So, if we don't want these calamities, we must compete in a world market. The economic course on which our federal government has been set for the last several decades has been gradually destroying our competitive position in the world market. Our challenge is to reverse that now. Entrepreneurship and productivity are two keys to this challenge.

All of the challenges we have discussed pale somewhat before two more. And these two are very much interrelated. The first is that of maintaining our spiritual strength against the almost overpowering wave of humanism in this world. The great promise of personal salvation, that Christianity offers to all men is buttressed and expanded by its explanation of the origin and destination of the human race: the fact that the world began and the world will end, and that someday there will be a day of judgment and a life hereafter, and that good will prevail and evil will be conquered and that every soul will be judged in that light.

Underlying all this has been a set of moral values that go way back to the presentation of the Ten Commandments of Moses. These moral values help form what some call the "Christian Consensus," which is, in effect, a moral and ethical fabric extracted principally from the Judeo-Christian biblical concepts. The tide of humanism which flows all around us today wipes out these concepts. It says that things are not right nor wrong per se but only according to whether they feel good or whether they hurt somebody. Situation ethics replaces moral law.

We live in a pluralistic democracy. We try to make it possible for everyone to practice freely his or her beliefs as long as they don't hurt other people. But whether a free society can prevail and exist in a sea of humanism remains to be seen. Without the stability of the Judeo-Christian moral and ethical consensus, a society of liberty can easily become a society of libertines. Rousseau said it well, "Liberty cannot live without virtue."

If the criterion for good is that which feels good,



then our society becomes hedonistic. A humanist society denies origins and destination for mankind, denies purpose in life, denies judgment for good or evil, destroys reverence for human life and denies moral integrity. A recent survey which the Chinese government made of its citizens indicated that 25% of the Chinese in mainland China said they believe in nothing. A citizenry which believes in nothing soon falls into anarchy and can only exist, as the Chinese exist, in an authoritarian society.

The last challenge is also very personal to each of you. Some say that the corporation or the capitalist business system is intolerable because its motivation is entirely from greed for profit, that it is the essence of materialism and exists only for materialist purposes. I've even heard some businessmen say that a business exists only to make a profit. I think that's an incorrect definition. Although making a profit is a *requirement* of business, it is not the *purpose*, any more than eating is the *purpose* of living, although it is a requirement.

I define a business as an institution which offers products or services that people want or need in an atmosphere of integrity and moral purity. In our exchange economy these products or services are generally sold for money. Every sale should be an even trade. That is, whatever the buyer pays for the product or service should be equal in value to the service or product purchased. When this happens both are satisfied, the seller and the buyer.

Now the money received for the product or service sold has to cover the costs of producing the product or service. That means it must cover the costs of the labor, the raw materials, the overhead that went into it, and a portion for the development of capital we call profit. The profit is a necessary part of the sale, because without profit there would be no way to build factories, buy machinery or pay for the use of capital borrowed to do the same. It, however, is not the end purpose of the business. It's rather a necessary overhead. The competitive system keeps the percentage of profit in the total sales figure within competitive bounds. Incidentally, managed or socialist systems also have profit in their pricing structure, since they too must develop capital to build factories. But because they are a state monopoly, their profits are not regulated by competition and can be manipulated to any level.

Many years ago an American president said the business of America is business. Many people criticize that statement today but it still has an essential truth to it. In order to live we have to exchange the work of our hands or minds for the work of someone else's hands or minds in our exchange economy. This constitutes business, this constitutes life.

I think involvement in the business system of our country is a very high calling. The free enterprise business system is very competitive. It's not unlike

sports and just as in sports, there are the stars, the superstars, and the losers. And much of what makes a star or superstar or a loser has to do with motivation, training and the capability to apply high amounts of energy to what you are doing. The lazy do not succeed in business any more than they succeed in sports or other enterprises. And the superstars are not necessarily the most intelligent; sometimes they are simply those who work the hardest. Those who work the hardest in the business system of this country, in the free enterprise system, get very high rewards. They should.

I heard someone say the other day that what's good news for the poor is bad news for the rich. That statement is wrong. People who work hard in the free enterprise system and build a degree of success for themselves unavoidably also build success for others. I think it is more accurate to say that success is not selfish, failure is. People who fail in whatever enterprise in life, fail not only themselves but all others around them, because people who fail also create a circle of failure around them. People who succeed create wealth and jobs and motivation and upward mobility for a great many people, not only for their family and friends but many others as well.

In *The Fountainhead*, Ayn Rand wrote:

Men have been taught that the highest virtue is not to achieve, but to give. Yet one cannot give that which has not been created. Creation comes before distribution—or there will be nothing to distribute. The need of the creator comes before the need of any possible beneficiary. Yet we are taught to admire the secondhand who dispenses gifts he has not produced above the man who made the gifts possible. We praise an act of charity; we shrug at an act of achievement.

Some people think you can't be successful in business unless you are crooked. I think the reverse is true. *You can't be successful in business if you are crooked.* The businessperson with high moral and ethical standards is immeasurably better equipped to be successful in the free enterprise business world than one who has no such standards. A successful businessperson is called upon constantly to make moral and ethical judgments.

And so this brings us full circle. I began by saying our great challenge is to maintain a free society, but all the other challenges I've mentioned are linked to that challenge. And all of these challenges are linked to the challenge of maintaining our spiritual values. And this challenge finally comes back to each one of us personally, because spiritual values are not a joint effort, they are a personal effort. Finally, each one of us must address our God as individuals, not as members of the human race.

These are exciting times in which we live. Occasionally I run into some misguided soul who says, what's the use of living in these times? All the inventions have

been invented, all the lands have been discovered and all the challenges have been met. Such poor souls are blind and deaf. The challenges that face all of us today, individually and collectively, are so great and so exciting that it will take absolutely the very best from all of us running flat out to meet them successfully. And

even then we probably won't meet every challenge with one hundred percent success. There is, of course, no perfection in the world, there is only the striving for perfection. But in that striving we also help ourselves to reach our own destinies.

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